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September 18, 2007

The Honourable Charles D. Nottingham
Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001
United States

Dear Chairman Nottingham,

This letter responds to your August 15, 2007 letter requesting information on CN's service plans for the remainder of 2007 and on the capacity of our network. We fully recognize your concerns with respect to the importance of the rail system being able to meet rail traffic demands generally, and particularly with respect to agricultural products, intermodal service, and transportation of coal and other energy resources.

CN Operations and Service Plans

CN's operations are guided by the precision railroading concept, and we are consistently seeking to increase the speed, efficiency, and reliability of our operations. CN operates regularly scheduled trains that leave at predetermined times; CN handles individual car movements according to a specific plan where possible to meet agreed-upon customer commitments.

Because our scheduled operating plan recognizes anticipated seasonal changes in business and can accommodate other business changes that may occur, we do not make structural changes to our scheduled railroad on a seasonal basis. Instead, we make adjustments based on changes in customer forecasts throughout the year.

Our five core operating principles – service, cost control, asset utilization, safety, and people – are at the heart of CN's efforts to meet our customers' needs. At present, we are successfully meeting those needs. We anticipate business volumes remaining flat for the most part for the remainder of this year, with the exception of some bulk commodities.

We are having some challenges with respect to grain transportation. As was the case in 2006, we experienced significant pre-harvest volumes of grain – particularly in Iowa and southern Illinois – as elevators sought to clear out their stored grain in anticipation of an excellent U.S. harvest. We currently are experiencing a backlog of basic orders for grain cars, and we are operating at capacity on our Premium Service Trains.

On intermodal traffic, CN on an ongoing basis is mobilizing people and assets as well as improving communications to strengthen the intermodal supply chain links we control. As a result of these efforts, the fluidity of the intermodal operations at our Memphis terminal and elsewhere on our system has increased dramatically.

With respect to our overall performance, CN is operating at a high level of efficiency, with our trip plan compliance in our Southern Region at 92.2 percent year-to-date through August 2007. While this number is slightly lower than the U.S. trip plan compliance for 2006, the figures are not directly comparable as CN's Southern Region now also includes the Sarnia and Windsor, Ontario areas, as well as territory north of the U.S. border to Winnipeg, Manitoba, and east to Thunder Bay, Ontario. Our trip plan compliance earlier this year also was affected to some degree as a result of congestion and other issues related to two labor strikes in Canada. We expect to continue to achieve excellent trip plan compliance in the Southern Region for the remainder of this year.

CN also is consistently seeking ways to enhance operating fluidity, not only on CN's network but also throughout the North American rail network generally. We have reported previously on routing protocol agreements that CN reached in 2004 and 2005 with our U.S. interline partners; these routing protocols reduce costs industry-wide by placing rail traffic on the most efficient and least congested routing – regardless of ownership. The result is a structured plan to direct rail traffic flows through the most efficient interchange locations in order to improve both transit times and asset utilization, thereby making the most efficient use of capacity. We have achieved outstanding compliance rates on the routing protocols with our interline partners and thousands of railcars are moving each year over efficient, less congested gateways.

CN also has entered into co-production arrangements with other carriers, which, like the routing protocols, are designed to increase efficiencies and improve service by optimizing the use of current industry infrastructure while maintaining shippers' competitive options. Building on the success of previous co-production arrangements, CN in 2006 reached new agreements with BNSF, CP, and CSX.

With respect to our cross-border operations, we work closely with U.S. Customs and Border Protection (CBP) and the Canada Border Services Agency and other agencies to meet their security requirements while also ensuring a smooth flow of traffic to the maximum extent possible given security considerations. CN was the first North American rail carrier to participate in CBP's Customs-Trade Partnership Against Terrorism (C-TPAT) program; CN received earlier this month our C-TPAT validation from CBP.

As in past years, however, we remain concerned about the fluidity of the rail network due to congestion at certain gateways, most notably, Chicago. The CREATE public/private infrastructure program is a well-intentioned attempt by numerous stakeholders to address rail congestion and its implications for freight and passenger railroads, customers, and citizens of the City of Chicago. However, given the significantly lower level of funding provided in 2005 by Congress in the SAFETEA-LU legislation than advocated by CREATE's proponents, combined with continued funding uncertainties, CN's concerns about the fluidity of rail operations in the Chicago region remain.

Lastly, with respect to employment levels, CN has been hiring new employees this year and currently has a total of 5,557 employees in place in the U.S. portion of the Southern Region, 2,116 of whom are train and engine service employees. We believe, based on the business forecasts, that the employment levels we have in place will be sufficient to meet customers' service needs.

Customer Communications

In addition to providing a variety of e-business tools to assist customers in ordering cars and tracking their shipments, CN actively communicates with our customers on a regular basis and through a variety of means. Our Account Managers and Customer Support Representatives communicate routinely with customers by phone, fax, and e-mail, and James Foote, CN's Executive Vice-President – Sales & Marketing, sends mail and e-mail communications on major issues. We also send a State of the railroad e-mail to customers who subscribe to that service.

In the event of shipment disruptions, we quickly alert customers of service issues by e-mail and by posting the information on the CN website. Should service issues arise that have not been resolved through normal business channels, CN's Service Department, headed by Michael Mohan, Vice President – Service, works with customers to resolve issues as well as to undertake quality control initiatives.

Capacity and Infrastructure

CN is fortunate in that, with the exception of the Chicago gateway, we do not have major congestion or capacity issues on our route network. We continue to look for ways to improve the efficiency of CN's network in the Chicago region.

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CN has an aggressive capital-spending program, aimed at ensuring that our infrastructure is sufficient to meet customers' demands. In 2006, our capital expenditures totalled C\$1.56 billion systemwide, which is roughly 20 percent of our revenues. We anticipate capital spending of approximately C\$1.6 billion in 2007, with roughly C\$1 billion for track infrastructure to maintain a safe railway and to improve the productivity and fluidity of our network. Our equipment capital expenditures are targeted to reach roughly C\$350 million, and we expect to spend more than C\$200 million on facilities to grow the business, on information technology, and other projects that will allow CN to increase productivity. Again this year, we expect our capital investment to represent about 20 percent of our revenues.

We have not finalized our specific targets for 2008, but we plan to continue aggressive capital spending generally. We also expect to complete work late next year on our US\$100 million project to rebuild and upgrade our Johnston Yard freight switching facility in Memphis, Tennessee.

CN appreciates the opportunity to provide information on our service offering and related issues. I would be pleased to provide any additional information that you may require on this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Hunter Harrison', with a long horizontal flourish extending to the right.

E. Hunter Harrison
President and
Chief Executive Officer

cc: Vice Chairman Buttrey
Commissioner Mulvey
Mr. Edward R. Hamberger